

BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

June 12, 2002

IN RE:

**APPLICATION FOR APPROVAL OF THE TRANSFER OF
CONTROL OF XO COMMUNICATIONS, INC., SOLE
SHAREHOLDER OF XO TENNESSEE, INC. PURSUANT
TO A CORPORATE RESTRUCTURING INVOLVING
THE ISSUANCE AND SALE OF NEW COMMON STOCK**

**DOCKET NO.
02-00525**

ORDER APPROVING TRANSFER OF AUTHORITY

This matter came before the Tennessee Regulatory Authority (the "Authority") at the regularly scheduled Authority Conference held on May 21, 2002 for consideration of the *Application* filed by XO Tennessee, Inc. ("XO Tennessee") and XO Communications, Inc. ("XO") (collectively the "Applicants") for approval of a transfer of authority to provide utility services. The *Application* was considered pursuant to the provisions of Tenn. Code Ann. § 65-4-113.

Requirement of and Standards for Authority Approval

Tenn. Code Ann. § 65-4-113 requires a public utility to obtain Authority approval to transfer its authority to provide utility services. Tenn. Code Ann. § 65-4-113(a) provides as follows:

(a) No public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the authority, to any individual, partnership, corporation or other entity without first obtaining the approval of the authority.

Tenn. Code Ann. § 65-4-113(b) provides the standards by which the Authority shall consider an application for transfer of authority, in pertinent part, as follows:

(b) Upon petition for approval of the transfer of authority to provide utility services, the authority shall take into consideration all relevant factors, including, but not limited to, the suitability, the financial responsibility, and capability of the proposed transferee to perform efficiently the utility services to be transferred and the benefit to the consuming public to be gained from the transfer. . . .

The Application

The *Application*, which was filed on May 8, 2002, states that an indirect transfer of control of XO will be made, through a stock purchase agreement, from Craig McCaw and other existing shareholders of XO to the shareholders of a restructured XO. Shareholders of the restructured XO will include former shareholders as well as Forstmann Little & Co. Equity Partnership-VII, L.P., and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VIII, L.P. (collectively "FLC"), and an indirect wholly-owned subsidiary of Telefonos de Mexico, S.A. de C.V. ("Telmex"). Craig McCaw currently owns more than fifty percent (50%) of the voting rights of XO. Following the transaction, FLC will own approximately forty percent (40%) of those rights, Telmex will own approximately forty percent (40%) of those rights, and Craig McCaw and other shareholders will own the rest, with none owning a full ten percent (10%) of those rights. These investors will hold their interests independently of one another and have no agreement to act in concert with respect to the future operations of XO and its subsidiaries, except with respect to the election of Directors. The Applicants request that the Authority approve the proposed transfer pursuant to Tenn. Code Ann. § 65-4-113.

According to the *Application*, XO Tennessee is a wholly-owned subsidiary of XO. Both are Delaware corporations headquartered in Reston, Virginia. XO Tennessee has been granted

authority to provide intrastate interexchange and local exchange services in Tennessee. FLC are members of a family of affiliated private investment funds, Forstmann Little & Co., which has long been recognized as a permanent acquirer and owner of businesses. Telmex is a Mexican corporation with more than 13,000,000 telephone lines in service, 1.43 million line equivalents for data transmission, and more than 845,000 Internet accounts.

Public Interest Considerations

The *Application* states that the indirect transfer of control will not involve a change in the name under which XO currently offers service in the State of Tennessee, nor will it change any of the services XO offers in Tennessee. There will be no change to the rates or terms and conditions of service. XO will continue to be led by the same team of experienced telecommunications officers and personnel. The indirect transfer of control of XO will be seamless and completely transparent to Tennessee customers.

Findings

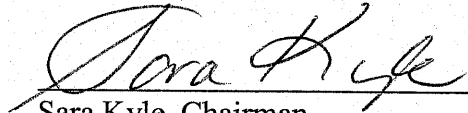
The Directors of the Authority considered this matter at the May 21, 2002 Authority Conference. Based upon careful consideration of the *Application*, the Authority finds and concludes as follows:

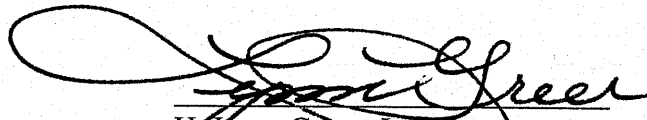
1. The Authority has jurisdiction over the subject matter of this *Application* pursuant to Tenn. Code Ann. § 65-4-113;
2. XO Tennessee, Inc. has been granted authority to provide telecommunications services in Tennessee;
3. Ownership of a majority of the voting rights in the parent company of XO Tennessee, Inc. will be transferred from Craig McCaw to a group of owners, no one of which will own a majority of such rights, resulting in a transfer of the authority granted XO Tennessee, Inc. to provide utility services; and

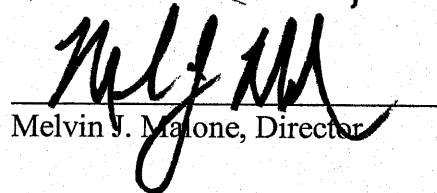
4. Approval of the transfer of authority is appropriate pursuant to the provisions of Tenn. Code Ann. § 65-4-113.

IT IS THEREFORE ORDERED THAT:


The *Application* of XO Tennessee, Inc. and XO Communications, Inc. for approval of the transfer of authority described herein is approved.


Sara Kyle, Chairman


H. Lynn Greer, Jr., Director


Melvin J. Malone, Director

ATTEST:


K. David Waddell, Executive Secretary